



## **OXFORD ANALYTICA**

**VENEZUELA**

**FISCAL TRANSPARENCY**

**Country Report 2005**

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# VENEZUELA



## COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2005	2004	2003	2002
Clarity of roles	••	••	••	••
Availability of information	•••	•••	•••	••
Budget preparation	••	••	••	••
Accountability	••	••	••	••
<b>Score</b>	<b>2.25</b>	<b>2.25</b>	<b>2.25</b>	<b>2.00</b>

## OUTLOOK & COMMENTARY

There have been significant increases in government expenditure in 2005; however, with the sheer quantity of money being earned from oil exports, Venezuela is running budget surpluses regardless. Unless the international price of oil remains high, fiscal sustainability would be at risk in the medium term, particularly because of the government's commitment to increase expenditure on social programmes. With the large increases in revenues, it appears that there has been a corresponding decrease in concern on the part of the government about maintaining oversight and transparency in the use of public sector resources.

A new National Development Fund (Fonden) was set up this year as a result of an amendment to the Central Bank of Venezuela Law (LBCV) on 19 July 2005, which enables the government to make use of BCV international reserves above a certain level to finance public spending and investments. There are concerns over the transparency of the use of Fonden funds; some argue that Fonden is in effect going to manage the international reserves in a form of parallel budget -- with little transparency, accountability, or parliamentary oversight. However, the Ministry of Finance has stated that the newly-created *Banco del Tesoro* (Treasury Bank) will manage the Fonden funds, so that all Fonden revenues will appear in the Treasury Bank's financial statements, to be published every month and which will be audited externally. Since the Treasury Bank is not yet operational, it remains unclear to what extent, and how frequently, these fiscal reporting measures will be carried out in practice.

## EXECUTIVE SUMMARY

### 2.25 Intent declared

Fiscal transparency in Venezuela has remained weak over the past year, although not all the developments have been negative. In the past year, there has been a significant improvement in the information on, and presentation of, debt operations in the budget. The 2006 budget was an improvement over previous years in that expenditure is now listed by projects and programmes, which provides more detail on the exact destination of resources. Quasi-fiscal operations undertaken by state-owned enterprises and public financial institutions are still not disclosed, and yet they comprise between 3% and 4% of GDP. The Narrowly Defined Public Sector accounts have not been published since 2002, which is a serious concern for transparency. The 2006 budget does not include a detailed description of fiscal risks or contingent liabilities, which have been estimated as being in the region of 10 billion US dollars. There is also concern about the fiscal sustainability of the social security system, which is particularly acute given the lack of sensitivity analyses to gauge the financial risks over the long term.

Social programmes, popularly known as ‘missions’, have started to coordinate more with the ministries over the past year. An increasing proportion of the resources going to the missions are being included in the budget, which is a positive step. However, most of these funds come directly from the Fondespa fund, which is managed by the state oil company *Petroleos de Venezuela* (PDVSA). These missions lack transparency more generally; lines of accountability and oversight within the hundreds of different projects are unclear and allegations of corruption and mismanagement are being heard with increasing frequency. There are no clear lines of financial oversight and there has been no effective assessment of potential overlaps in the mission programmes. There is also an acute absence of technical capacity in the missions and the state administration in general. The government is reportedly developing a system that monitors the missions and their impact on social welfare. This would be an improvement, but appears to be at an early stage.

The Fondespa fund is to be merged with the National Development Fund (Fonden), a new fund which was set up as a result of an amendment to the Central Bank of Venezuela Law (LBCV) on 19 July 2005. This enables the government to make use of BCV international reserves above a certain level to finance public spending and investments. There are concerns over the transparency of the use of Fonden funds. The LBCV amendment also establishes that PDVSA is no longer legally required to sell all the dollars it receives from oil exports to the central bank. It now has only to sell those dollars needed to meet the BCV’s optimal level of reserves.

There has been no progress in presenting a revised version of the Law on State Fiscal Management (*Ley de Hacienda Publica Estatal* -- LHPE), vetoed by President Hugo Chavez last year. There appears to be a general lack of political resolve to provide sub-national authorities with additional measures to exercise fiscal autonomy. Around 40% of the budget is earmarked to go automatically to the regions, yet the regions do not have the capacity to allocate these resources efficiently, and thus much of these resources are either misused or lost to corruption. There is no system for controlling or evaluating municipal budgets.

Concerns were also raised by commentators regarding the Office of the Comptroller General. While the office is investigating cases of petty corruption, large-scale corruption appears to be going un-investigated.

Venezuela’s overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



### Intent declared

**The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.**

Venezuela is a decentralised republic, in which power is divided between the executive, the legislature (the National Assembly), and the judiciary. In terms of decentralisation, the executive and the National Assembly have continuously introduced new laws, reforms, and decrees that have done little to consolidate the institutional framework envisaged in the constitution.<sup>1</sup> There has been no further progress in 2005 -- either legislative or in terms of implementation -- in the decentralisation process. Some commentators stated that the decentralisation process is reversing; that President Hugo Chavez, rather than the political parties, now nominates candidates for state governors (state governors are elected), and that governors depend more now than ever on the central government. Of the 23 state governors, 21 are from the governing coalition party and there is considerable party discipline among them; they are very unlikely to go against any directions from Chavez. Formally, the decentralisation law is not being broken, but the trend is against decentralisation.<sup>2</sup> Commentators judged that President Chavez, with his strengthened mandate, will be unlikely to increase the autonomy of the regions, given that the central government regards most of these as not ready for decentralisation. Many regions do not have the human and the technical capacities necessary to assume the responsibilities of a decentralised state, so taking on such responsibilities unprepared has the potential to generate more corruption and inefficiencies. Instead of building those resources, the government is recentralising the main responsibilities.<sup>3</sup>

### Structure, functions, and responsibilities of government

The constitution defines the relationship between the national and sub-national governments, and their respective jurisdiction over public and private sector economic activity.

Several state-owned enterprises now operate in those sectors where private investors have halted their activities owing to diverse market restrictions.<sup>4</sup> These quasi-fiscal activities limit the transparency with which the government carries out its legal functions and responsibilities.

### Coordination and management of budgetary activities

The Organic Law on the Financial Administration of the Public Sector (LOAF, passed in 2000) establishes the general framework for financial management.<sup>5</sup> The LOAF constitutes a significant achievement in terms of fiscal management and transparency when compared to the previous fiscal regime. It establishes general principles for the budget process and the financial relationship between the federal government and the sub-national levels of government, decentralised agencies, and state-owned enterprises. The LOAF states that the Ministry of Finance (MoF) is responsible for the budget process, including the presentation of the budget bill and management of budget execution.<sup>6</sup> The responsibility to issue regulations on budgetary matters and to execute the budget lies with the National Budget Office (ONAPRE) within the MoF.<sup>7</sup> The LOAF also establishes a unified treasury account and accounting system, an internal control system, and addresses aspects of macroeconomic coordination between the national government and the Central Bank of Venezuela (BCV).<sup>8</sup>

However, the implementation of the LOAF has been delayed, and regulatory improvements have not been executed.<sup>9</sup> Commentators continue to stress that the government is still implementing actions that contradict a number of principles set out in the LOAF, such as those concerning the need for transparency and macroeconomic stability. For example, the discretionary use of resources from the Investment Fund for Macroeconomic Stabilisation (FIEM) in 2003 (the government has not used the FIEM during 2004 and 2005, though this is primarily because it has not needed the additional funds, rather than the result of increased transparency)<sup>10</sup>, the atypical methods of issuing/allocating government debt without auctions, and the selective enforcement of procurement regulations and foreign currency sales are perceived as not being in line with the LOAF's requirements.<sup>11</sup> Commentators maintained that the LOAF is too advanced for the current situation (the LOAF sets an objective to aim at), and that there are some discrepancies between Article 86 of the LOAF and the proposed Law on Indebtedness.<sup>12</sup>

The significant improvement in the information on, and presentation of, debt operations in the budget is a major achievement of 2005 resulting from the LOAF. The law provides an important legal framework, but the impact beyond debt operations has not been significant thus far. There has been some progress in terms of the multi-annual budget; the second multi-annual budget has been produced (for 2005-07), and by April of 2005 all the public credit implementing regulations had been passed, but there is long way to go.<sup>13</sup>

### **Relations between government and public sector agencies**

The relationship between the central government and other public sector agencies is clearly defined in the 1999 constitution. The BCV, the Office of the Comptroller General, the Office of the Prosecutor General, and the Office of the Defendant of the People are autonomous state entities. However, commentators stated that President Chavez has control of the Comptroller General, and the National Prosecutor.<sup>14</sup>

Several reforms to the BCV law (LBCV) and complementary regulations have clouded the central bank's actual autonomy. Since 2002, the government has been legally allowed to use profits earned by the BCV in the same fiscal year to meet cash shortages. This mechanism became more relevant after the introduction of a fixed exchange rate alongside foreign currency controls in February 2003, since the new monetary regime could provide the government with additional revenues stemming from all foreign exchange transactions. Commentators have stressed that the monetary framework has been implemented with numerous ad hoc amendments, which are more in line with the government's political agenda than economic rationale.<sup>15</sup>

Doubts about the operational autonomy of the Central Bank of Venezuela (BCV) have intensified over the past year with President Chavez exerting increasing control of the BCV. Designing and implementing monetary policy is more difficult now than previously, and concerns remain over the ability of the BCV to prioritise price stability over the government's fiscal policy objectives. In addition, the National Assembly amended the LBCV on 19 July 2005 to enable the government to make use of BCV reserves above a certain 'optimal' level (to be established by the BCV in consultation with the National Assembly) to finance public spending. Any excess reserves will be transferred to a new National Development Fund (Fonden). However, there are concerns over the transparency of the use of Fonden funds. The amendment is another step in the erosion of the BCV's independence, and more generally solidifies further the executive's control over many of the country's key institutions.<sup>16</sup>

Similarly, many legally independent regulatory agencies are in practice subject to considerable influence by the government. The Superintendence of Banks and Financial Institutions (SUDEBAN) is responsible for overseeing public and private financial institutions. However, several public banks are not subject to oversight by SUDEBAN, even though they perform important quasi-fiscal operations on behalf of the government. Special concern has been raised by the fact that many development banks, trust funds, and state-owned enterprises generate considerable losses that are frequently financed with government bonds.<sup>17</sup>

### **Government involvement in the private sector**

Articles 299-310 of the constitution set out the broad framework for government involvement in the private sector. The constitution reserves certain strategic sectors, such as the oil sector in particular, to government control. A number of other sectors deemed of national interest, such as tourism, are subject to state aid and protection. Since the end of 2002, the government has been increasingly involved in private sector activities, for example through the creation of state-owned enterprises that operate in strategic sectors (such as manufactures and trade) where private firms have decreased activities owing to financial problems.<sup>18</sup> The government owns, for example, the Treasury Bank (not yet operative), a large food distribution cooperative, has revived the national airline (though so far it has only one plane), and has plans for a telecommunications company. On the whole, it is not trying to put anyone in the private sector out of business with unfair competition (though subsidies give unfair competition in the case of MERCAL, the food distribution cooperative), as it is generally targeting segments of the population not traditionally targeted by the private sector.<sup>19</sup> The fiscal risks involved in these operations have seldom been quantified.

The Oil Company of Venezuela (PDVSA) provides about 30% of public revenues through taxes, transfers, and profits and has a considerable role in the foreign exchange and financial markets. PDVSA has been used to fund a number of activities on behalf of the government and to carry out activities that, because PDVSA is not publishing regular financial statements, weaken fiscal and monetary transparency in Venezuela. Commentators noted that until 2002, PDVSA reported on its production, its costs and so on. These accounts are no longer reported by PDVSA and are not included in the national budget. The BCV does not receive any accounts from PDVSA, so it is not possible to ascertain the financial and operational situation of PDVSA.<sup>20</sup> PDVSA did publish a financial statement in 2005, however it relates to 2003, and it lacks detail.<sup>21</sup>

The government is widely perceived to be extending its influence over the private sector.<sup>22</sup> However, all moves by the government in this respect have had a legal foundation. There has been widespread concern that the government could eventually subtly undermine private property. However, thus far at least, President Chavez appears not to be conducting an aggressive expropriation of private property, but rather is taking pieces of idle land from large landowners for which they do not have legal ownership papers.<sup>23</sup>

### **There should be a clear legal and administrative framework for fiscal management**

Article 311 of the constitution establishes broad principles for fiscal management in Venezuela. These cover issues of transparency, responsibility, efficiency, and the need for balanced fiscal accounts. Based on these general principles, Venezuela has begun to enact a clear legal framework for budgetary activities, including the principles set out in the LOAF. However, progress has remained slow, and the Chavez administration has been unsuccessful in allocating spending and tax responsibilities at the sub-national level.

#### **Legal framework for budgetary activities**

Articles 311-313 of the constitution specify the legislature's role in the budget process. After the government submits the budget for legislative approval, the National Assembly may introduce changes to the bill, but these must be financed. The National Assembly approves the debt plan issued by the government, but may not reduce revenues. If the executive fails to submit a budget bill or the National Assembly declines to approve it, the budget of the previous year is enacted. At the end of the fiscal year, the government must submit the public accounts statement to the National Assembly.

A Law on State Fiscal Management (*Ley de Hacienda Publica Estatal* -- LHPE), which sets out the fiscal process at the sub-national level, was initially presented in March 2001. The National Assembly passed it in March 2004, but

it was first blocked by the Comptroller's Office and then vetoed by President Chavez. There has been no progress in submitting a revised version over the past year. There is a lack of political will to give sub-national authorities more fiscal autonomy.<sup>24</sup>

Much of the budget (around 40%) goes automatically to the regions. The exact amount is fixed and depends only on the population in a region and not on its economic activity. Commentators maintained that income, particularly from oil production, is being deliberately underestimated in order to avoid disbursing the prescribed allocation to the regions. Allegedly, the regions do not have the capacity to use the levels of resources that are allocated to them -- there are simply not enough projects or the expertise to initiate more projects -- so many resources are lost to corruption. There is no accountability for the expenditure of these resources -- no system for controlling or evaluating municipal budgets -- and no incentive to use the resources efficiently. For this reason, the centre is trying to take more control (re-centralising in the view of some commentators) and when funds are given for specific projects at a regional level, President Chavez is now demanding to see the results (this is separate from the fixed transfer of funds from the annual budget).<sup>25</sup>

The LHPE would require multi-year planning with annual operative plans that have clear targets and objectives, while also determining accounting and reporting guidelines. The proposed law prevents state and local governments from issuing or acquiring debt and introduces new measures to strengthen the capacity of sub-national governments to raise tax revenues. With the odd exception, up to now the states have not levied taxes and they are not permitted to take on debt. There is still some debate about how the law would allocate responsibilities. The LHPE also contains a Territorial Compensation Fund, which would make regional funding project based. Commentators said that little progress had been achieved in the decentralisation programme in the last few years, which is corroborated by the fact that the MoF's National Integrated Tax Management Service (SENIAT) re-established centralised tax collection mechanisms in 2003.<sup>26</sup> Several commentators maintained that the process of decentralisation has actually been reversing.

### **Legal framework for taxation**

The constitution specifies the principles that guide taxation. All taxes must be specified in law and exemptions must be determined at the same time. Taxes may not have expropriation effects and tax evasion is a criminal offence. The Organic Tax Code (*Código Organico Tributario*) further develops the tax framework.<sup>27</sup> The code details the tax base, the tax subjects, the procedure to create taxes and to issue tax exemptions, and behaviour that can lead to conviction and imprisonment. The code also establishes legal procedures for dispute settlement and resort to the court of appeals.

The SENIAT is the sole tax administration agency in Venezuela.<sup>28</sup> It has legal, administrative, financial, and technical independence from the executive. However, the executive appoints the head of the SENIAT. Since 2002, the government has reformed on several occasions the legal framework of the value added tax, income tax, and the tax on bank debits; the frequency of changes to the tax regime reflects the paucity of technical assessment when drafting tax laws.<sup>29</sup> The SENIAT has significantly reduced tax evasion and has improved tax collection. The SENIAT has also improved its data reporting. It now reports the values of taxes collected every month.<sup>30</sup> In July of 2004, the Corporate Income Tax Law was passed, which facilitates tax collection among large contributors.

### **Ethical standards for public servants**

The constitution and complementary legislation determine ethical standards for public servants. The Public Service Statute (*Ley Sobre el Estatuto de la Funcion Publica*) provides ethical standards required for public employees at all government levels, and includes hiring, promotion, and contract termination procedures.<sup>31</sup>

## 2. PUBLIC AVAILABILITY OF INFORMATION



### Enacted

**The public should be provided with full information on the past, current, and projected fiscal activity of government.**

#### Central government operations

The MoF publishes annual, quarterly, and monthly fiscal information on the activities of the central government on its website. Ahead of its submission to the National Assembly, the ONAPRE publishes the budget draft that includes forecast revenues, expenses, and financial requirements.<sup>32</sup> Nevertheless, commentators have stated that the MoF and ONAPRE have persistently underestimated the government's financial needs.<sup>33</sup> Budget documents do not compare appropriations with effective budgetary execution, although year-end data are available on the ONAPRE website (from the 1999 fiscal year onwards).<sup>34</sup> Models and methodology used to estimate and forecast fiscal activity are not publicly available.

The MoF publishes an *Annual Report* containing a detailed review of fiscal performance during the past fiscal year as well as reports from the ONAPRE and the Treasury Office.<sup>35</sup> In addition, the MoF makes available monthly/quarterly statistics for central government budgetary operations<sup>36</sup> and submits public accounts to the National Assembly at the end of each fiscal year.

#### Public sector operations

Full details of the fiscal activities of the general government are not available.<sup>37</sup> The MoF publishes the consolidated 'Narrowly Defined Public Sector' accounts (*Sector Público Restringido*), which includes quarterly updates on the fiscal performance of the central government, decentralised institutions, a number of non-financial state-owned enterprises, and public financial institutions. The accounts provide details of quasi-fiscal operations by the BCV and transfers to public and private individuals. Quasi-fiscal operations undertaken by state-owned enterprises and public financial institutions are not disclosed.<sup>38</sup> The Narrowly Defined Public Sector accounts have not been published since 2002, which is a serious concern for transparency.<sup>39</sup>

**A commitment should be made to the timely publication of fiscal information.**

The public finances chapter of the constitution and the LOAF both acknowledge the need for fiscal transparency. The LOAF contains requirements for the timely submission of fiscal information to the National Assembly. The government has improved the collection of information from state-owned enterprises. Commentators stated that most state-owned companies' investments are in the budget, but that there are no consolidated accounts.<sup>40</sup>

#### Debt reporting

As part of Venezuela's commitment to the IMF General Data Dissemination System (GDDS), the country publishes annual and quarterly domestic and foreign debt data. In addition, the MoF website posts a report by the minister of finance to the National Assembly on debt operations, prospects, and financial strategy. The MoF details its daily debt operations through press releases and weekly balance reports. In the past, commentators had expressed concern

about the lack of clarity with which government bonds are distributed (without auctions) to a number of state-owned enterprises and social security agencies to finance their liabilities.<sup>41</sup>

Debt restructuring details are on the MoF website. The BCV provides daily information on the public debt; it is not detailed, but it is becoming more so.<sup>42</sup> During 2005, there has been a significant improvement in the information on, and presentation of, debt operations in the budget. For example, the uses of the debt are now far clearer than previously.<sup>43</sup>

### **Advance release calendars**

The MoF's website includes an advance release calendar, and a description of reporting guidelines, definitions, and classifications.<sup>44</sup>

### 3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

#### ●● Intent declared

#### **Fiscal policy objectives, macroeconomic framework, and risks**

Under the terms of the LOAF, Venezuela should adopt an open budget preparation framework. Budgets are expected to reflect the planning process and contain measurable objectives and resource allocations. The LOAF also requires the use of a multi-year primary fiscal balance framework for investment projects funded by debt issues. However, in practice Venezuela's budgetary process does not meet these requirements. The budget bill excludes the budgets of state-owned enterprises, which are separately reviewed and approved by the president and the Council of Ministers.

##### **Fiscal policy objectives**

The Ministry of Development Planning (MPD) publishes the *Annual Economic Plan*, which discloses fiscal policy objectives for the relevant fiscal year.<sup>45</sup> The *National Development Plan 2001-2007* forecasts fiscal performance for the entire presidential term, although it is not updated to reflect changing economic and fiscal conditions.<sup>46</sup> The government's main fiscal policy objectives are to recover the stability of fiscal aggregates and achieve a fiscal balance in the medium term. There have been significant increases in government expenditure in 2004 and 2005, however with the quantity of money being earned from oil exports, Venezuela is running surpluses regardless. It remains to be seen what will happen if the oil price does not continue to rise, given the large increases in government expenditure.<sup>47</sup>

##### **Macroeconomic framework**

A basic macroeconomic framework, which is prepared by the government and the BCV, is included in the budget bill. The framework is developed using a general equilibrium model that incorporates economic growth, oil prices, foreign exchange effects, and interest rates. The SENIAT estimates tax revenue used for revenue forecasting, but commentators stated that actual tax revenues have rarely met SENIAT estimates, though the improved performance of SENIAT may change this. There are doubts about the reliability of the macroeconomic assumptions with regard to oil production and revenues; oil production tends to be underestimated.<sup>48</sup>

##### **Fiscal risks**

The LOAF requires the budget to include all fiscal risks including contingency scenarios for oil revenues and contingent liabilities. However, the 2006 budget does not include a detailed description of fiscal risks or contingent liabilities. The Multi-annual Budget Framework for 2005-2007 has a broader analysis of fiscal risks, though the methodology employed is considered to be inadequate.<sup>49</sup>

Commentators noted that the lack of quantification of contingent liabilities is something that is likely to become of increasing concern. For example, large numbers of people are being hired to work in the government's social programmes, but they are not officially incorporated into government ministries, so any benefits or pensions that these people will expect after a number of years are not being planned for. Contingent liabilities are thought to be in the region of 10 billion US dollars.<sup>50</sup>

### **Fiscal sustainability**

The LOAF requires that the multi-year financial plan promote fiscal sustainability by incorporating fiscal primary balances by the end of the plan's term. The Multi-annual Budget Framework for 2005-2007 includes a detailed analysis of fiscal sustainability, but it should be updated in order to reflect true economic conditions. Commentators noted that the main problem is PDVSA 'Fondespa' social fund, which is off budget. The trend towards using this fund is increasing. Commentators further noted that the social security system is unsustainable, and that there is no model or analysis regarding its sustainability.<sup>51</sup>

One point of progress made in 2005 has been the development of a plan for a new pensions system. The law institutionalising this has not been published as yet, but one of the provisions mandates that people over the age of 60 without a pension will now receive a pension equivalent to the minimum wage.<sup>52</sup>

A number of forecasts for quasi-fiscal activities and contingent liabilities are available in the Multi-annual Budget Framework for 2005-2007, which aims to ensure fiscal sustainability. The Multi-annual Budget Framework for 2005-2007 is indicative only, giving ranges rather than specific figures. It does not have a legal basis, but the 2008-10 Multi-annual Budget Framework will have a legal basis.<sup>53</sup>

### **Budget presentation**

The 2006 budget has been announced but has not been published as yet. Some commentators maintained that the official budget covers less each year, and that an increasing number of items are now off the budget. There is no annex this year with the actual final spending of 2005. Other commentators noted that the 2006 budget was an improvement over previous years in certain respects; for example, expenditure is now listed by projects and programmes, which provides more detail on the exact destination of resources. This is the first major achievement of years of work by the financial management information system, SIGECOF (*Manejo de los Procesos Integrados de Gestión y Control*). It is not clear yet the extent to which this really improves the supervision of spending.<sup>54</sup> Fiscal transparency would be enhanced if an updated multi-annual framework could be incorporated into each fiscal year's budget.

Most of the increases in social spending are not shown in the 2006 budget. Commentators were concerned about the omission of the mission (social programmes) budgets from the main budget, particularly given the massive increase in spending on missions. However, as missions have started to coordinate more with the ministries over the past year, an increasing proportion of the resources spent on them are appearing in the main budget, which is a positive step.<sup>55</sup> Most of these 'mission' funds come directly from the fund managed by PDVSA (the opaque Fondespa). The missions are not institutionalised and the government is being very slow to institutionalise them. The programmes do have websites but no detailed accounts.<sup>56</sup>

The missions are encountering increasingly serious problems as they expand in number -- a development made possible by the rise in oil prices. Lines of accountability and oversight within the hundreds of different mission projects are unclear and allegations of corruption are being heard with increasing frequency from those at the grassroots involved in their administration. There is also a lack of fiscal transparency. Abundant oil export revenues have diminished the administration's interest in devising clear lines of financial oversight and there has been no effective assessment of potential overlaps in the mission programmes.

Responsibility for the missions is fragmented across different ministries and agencies, with the central administration also having oversight and input into some key programmes. Without a streamlining of these functions and clear lines of responsibility, the potential for duplication and corruption will increase, in turn creating

frustration at the grassroots as the roll-out of the missions is impeded by administrative weaknesses. The government has announced a consolidation of the programmes, but there is a strong view that it does not have the ability or commitment to determine the most effective organisational form for the missions. Indicative of the type of problems encountered by the government is the acute absence of technical capacity in the missions and state administration.<sup>57</sup> The government is trying to create a system that monitors the missions and their impact, however this is at an early stage.<sup>58</sup>

In a new move, Fondespa, the fund managed by PDVSA, is to be merged with the National Development Fund (Fonden), a new fund set up as a result of an amendment to the LBCV on 19 July 2005 that enables the government to make use of BCV reserves above a certain level to finance public spending. The amendment talks of establishing the 'optimal level' of reserves; the BCV, in consultation with the National Assembly, decides the optimal level. Any excess reserves will be transferred to Fonden. Some commentators argued that Fonden is in effect going to end up managing the international reserves in a form of parallel budget, but with no rules to regulate it and no accountability or parliamentary oversight of the funds. However, the Ministry of Finance stated that the newly-created *Banco del Tesoro* (Treasury Bank) will manage the Fonden funds, so that all the money from Fonden will appear in the Treasury Bank's statements, which it will have to publish every month and which will be audited externally. This is the intention, though it remains to be seen what happens in practice. The Treasury Bank has been created but it is not yet operational.<sup>59</sup>

The amendment to the LBCV on 19 July 2005 also states that PDVSA is no longer legally required to sell all the dollars it receives from the sale of oil to the BCV. It now has only to sell those dollars needed to meet the BCV's optimal level of reserves. Any excess will be transferred to Fonden.

### **Data reporting**

The current budgetary framework mandates a wealth of budgetary information that includes detailed policy objectives, human resource needs, and budgetary execution of the previous five years. The government continues to make progress on data reporting, but many areas for improvement remain. New programmes, changes to the *National Development Plan*, and resources transferred to pension liabilities are not clearly explained or measured in terms of their fiscal impact. Budget data are classified by institution, policy function, and type of expenditure; information at programme level is not available.

Commentators noted that government statistics are being published more slowly than previously, and that the quality has suffered in some cases. They stated that the statistics on oil production are not reliable, and there was a lack of confidence in certain statistics produced by the National Institute of Statistics (INE), such as the unemployment statistics.<sup>60</sup>

The MoF is working on publishing more specific data, and is in a phase of transition in which responsibility for publishing government data is being passed to the INE, which will publish it according to IMF standards. The transfer of data to the INE has started, but is progressing slowly. The MoF and INE have different methods of presenting data, which have to be standardised before any significant transfer of data can occur. The BCV should in the future collate only monetary statistics and not real sector and fiscal statistics. There will no longer be different sources of fiscal and real sector data, such as the Statistics Office, OEFP (Oficina de Estadísticas de las Finanzas Públicas), the BCV, and the Budget Office.

Some commentators questioned whether moving the data to the INE was a good idea. They felt that the INE lacks the necessary technical capacity. While BCV statistics are felt to be of good quality, INE statistics are currently felt to be less reliable.<sup>61</sup>

## Budget execution and monitoring

The provision of information on the execution of the budget is particularly crucial in the case of Venezuela, because the lag in budgetary execution by the end of the fiscal year has typically been close to 20% of the overall budget. This has often led to considerable under-estimation of the budget deficit. Typically, the Venezuelan budget continues to be executed well into the following year.

The ONAPRE and the Treasury Budget Office are in charge of budgetary execution and monitoring. Fiscal data is being compiled through SIGECOF, which, when fully operational, will allow the real-time recording of expenditures and monitoring of budget execution. The system, which is being developed by the MoF, the MPD and the Office of the Comptroller General, will eventually also incorporate the regions. SIGECOF is up and running, but the results are not being made public.<sup>62</sup> SIGECOF has advanced at the national level over the past year, though there have been no attempts as yet to move it down to the sub-national level. Up to date information on execution of the consolidated budget is not available; the ONAPRE reports changes to the budgeted disbursements throughout the year, but does not record the percentage of actual disbursements compared to total appropriations.<sup>63</sup>

### Accounting basis

Budgetary revenues and expenditures are recorded on a cash basis, which can lead to the underestimation of the annual budget deficit. Accounting records are kept by the National Treasury and are derived from payment orders settled by the Treasury. The MoF provides only limited information on the procedures followed in compiling budgetary data, but a comprehensive online list of the accounting and audit practices for the public sector is available from the Comptroller General's website.<sup>64</sup>

### Procurement and employment

Venezuela reformed its Law on Procurement (*Ley de Licitaciones*) in November 2001.<sup>65</sup> The current framework establishes a national registry of providers of goods and services to the government and guidelines for a transparent selection process that includes the use of electronic platforms. However, commentators have asserted that many government agencies have used the provisions of Chapter II (Articles 87-89) of the Law to override the selection process and assign contracts directly, which is increasingly perceived as a sign of corruption.<sup>66</sup>

## Fiscal reporting

The LOAF and the constitution mandate the MoF to produce the *Annual Report* for submission to the National Assembly. The report contains detailed information on fiscal performance during the relevant fiscal year. Similarly, the budget bill includes a report of execution of appropriations during the previous fiscal year together with new budget allocations. Each ministry is mandated to give detailed reports to Congress but, according to commentators, much of what is contained in these reports is not very informative.<sup>67</sup>

#### 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

##### ●● Intent declared

##### Data quality standards

As part of its commitment to the IMF GDDS, the OEFP has been working to expand the coverage of central government data to include the operations of social security institutions and non-financial public enterprises. With technical assistance from international organisations, data on regional and local governments is now ready for publication, and collating this information into the general government has begun.<sup>68</sup> In addition, the OEFP plans to incorporate the accounts of non-financial public enterprises to obtain the balance for the non-financial public sector. Commentators maintained that there is no data on local government finances, and only poor data on regional government finances. The OEFP has been updating its financial statistics very slowly. There is a lack of data on social programmes.<sup>69</sup>

Budget data are reported following clear accounting guidelines, and are subject to independent internal and external auditing. The National Superintendence of Government Accounting and Audit crosschecks the balance sheets of public agencies and institutes. The reports produced by the Superintendence are more reliable than government data as they follow a modified accrual accounting methodology that incorporates changes in the budgetary lag, rather than the cash-based methodology followed by the MoF.

Commentators noted that GDP growth statistics have been rebased from 1984 to 1997, making it more difficult to draw comparisons with pre-1997.<sup>70</sup>

##### Independent scrutiny of fiscal information

##### Independent Audit

Under the Organic Law of the Comptroller General, the Office of the Comptroller General is an autonomous entity responsible for monitoring fiscal operations, including the transparent use of public resources and the performance audit of public management. However, there is a perception that the Comptroller's office is technically weak and lacks sufficient independence from the executive.<sup>71</sup> Some commentators stated that President Chavez has control of the Comptroller General and the National Prosecutor, while some referred to the Comptroller General as 'whitewash'. The Comptroller General is keeping a very low profile, and while the office is investigating cases of petty corruption, large-scale corruption appears to be going un-investigated.<sup>72</sup> An annual report by the Comptroller goes to the National Assembly. However, it is becoming less detailed and more opaque. Commentators stated that the Comptroller is unable to supervise Fondespa, the PDVSA social fund.<sup>73</sup> A selection committee that includes representatives of the state legislative bodies and civil society elects state comptrollers in an open process.

Commentators maintained that only the public debt data is sufficiently detailed to be properly audited, and that the budget is not sufficiently detailed for a proper audit. They judged that the quality of the budgetary accounts has deteriorated.<sup>74</sup>

### **National Statistics Agency**

The Statistics Office, OEFP (*Oficina de Estadísticas de las Finanzas Públicas*), is responsible for gathering and reporting fiscal data. The National Institute of Statistics (INE) is a devolved body of the MPD, and by law it has the authority and responsibility for planning and implementing the organisation and development of an integrated national accounting system.<sup>75</sup> However, the INE does not possess auditing functions to verify the government's financial statistics. There have been questions over the quality and integrity of the INE's data compilation since 2003.<sup>76</sup> A lack of confidence in some of the INE statistics continued in 2005. Most commentators maintained that the problem was mainly due to the lack of technical capabilities rather than to political pressure to manipulate statistics.<sup>77</sup>

Commentators also stated that access to the INE's statistics has worsened, with the only access point being the website. Requests via other media are, they state, always diverted to the website.<sup>78</sup>

Commentators further noted that the INE's data are published with long delays. The BCV data is said to be more trustworthy and transparent. The national consumer price index (CPI) is still based only on prices in Caracas, but the BCV is currently working closely with the INE on developing a new national CPI. Commentators noted that there has been more coordination between the BCV and the INE in general over the past year.<sup>79</sup>

## **INTERVIEWS**

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Venezuela between 25 and 28 October 2005:

### **Ministry of Finance**

#### **28 October 2005**

Guillermo Ortega	General Coordinator	Public Policy Evaluation Unit
Luis Davila	Adviser to the Ministry of Finance	

### **Central Bank of Venezuela (BCV)**

Despite considerable effort to meet with someone from the Central Bank of Venezuela, *Oxford Analytica* was not granted an interview.

## **ADDITIONAL INTERVIEWS**

#### **26 October 2005**

Robert Bottome	Director	Veneconomia
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#### **27 October 2005**

Leonardo Vera Azaf	Economist	Banco Mercantil
Pedro Ravelo	Economist	World Bank

#### **28 October 2005**

José Guerra Brito	Former Board Director of the Central Bank of Venezuela	
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## NOTES

<sup>1</sup> Constitución de la Republica Bolivariana de Venezuela, 1999 (as amended, in Spanish only):

[www.bcv.org.ve/c3/constitucion.asp](http://www.bcv.org.ve/c3/constitucion.asp)

<sup>2</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>3</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>4</sup> Interviews in Venezuela, 27-30 October 2003.

<sup>5</sup> Organic Law on the Financial Administration of the Public Sector (LOAF):

[www.mf.gov.ve/mfen/acrobat/ley\\_ing.pdf](http://www.mf.gov.ve/mfen/acrobat/ley_ing.pdf)

<sup>6</sup> Ministry of Finance (MoF): [www.mf.gov.ve](http://www.mf.gov.ve)

<sup>7</sup> National Budget Office (*Oficina Nacional de Presupuesto*, ONAPRE -- previously OCEPRE):

[www.ocepre.gov.ve](http://www.ocepre.gov.ve)

<sup>8</sup> Central Bank of Venezuela: [www.bcv.org.ve](http://www.bcv.org.ve)

<sup>9</sup> Interviews in Venezuela, 8-12 November 2004.

<sup>10</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>11</sup> Interviews in Venezuela, 27-30 October 2003 and 8-12 November 2004.

<sup>12</sup> Interviews in Venezuela, 8-12 November 2004.

<sup>13</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>14</sup> Interviews in Venezuela, 8-12 November 2004.

<sup>15</sup> Interviews in Venezuela, 27-30 October 2003.

<sup>16</sup> Oxford Analytica Daily Brief, Venezuela: 'Foreign Reserves Limits Raise Risks', 7 June 2005 and interviews in Venezuela, 25-28 October 2005.

<sup>17</sup> Interviews in Venezuela, 27-30 October 2003.

<sup>18</sup> Interviews in Venezuela, 27-30 October 2003. Commentators were particularly concerned about the use of monetary policy instruments (foreign currency controls) to implement fiscal policy. In this context, the controls have boosted the country's domestic monetary liquidity. In addition to depleting credit operations and increasing non-performing loans, this has left private banks with a large stock of government debt.

<sup>19</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>20</sup> Interviews in Venezuela, 8-12 November 2004.

<sup>21</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>22</sup> Oxford Analytica Daily Brief, Venezuela: 'Macroeconomic Data Fails To Dispel Doubts', 2 September 2005.

<sup>23</sup> Following the end of the dictatorship in Venezuela, many people took over pieces of land that they never actually purchased, so never gaining legal title to them, and it would appear to be these pieces of land that Chavez is 'taking back.' However, Chavez is also starting to force landowners who own large areas of non-productive, arable, land to make it productive. Interviews in Venezuela, 25-28 October 2005.

<sup>24</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>25</sup> Interviews in Venezuela, 25-28 October 2005.

<sup>26</sup> Interviews in Venezuela, 27-30 October 2003 and 8-12 November 2004.

<sup>27</sup> The Organic Tax Code (*Código Organico Tributario*, in Spanish only):

[www.seniat.gov.ve/pls/portal/docs/PAGE/SENIAT\\_CA/SENIAT/TRIBUTOS\\_INTERNOS/NORMATIVA/COT/COT.PDF](http://www.seniat.gov.ve/pls/portal/docs/PAGE/SENIAT_CA/SENIAT/TRIBUTOS_INTERNOS/NORMATIVA/COT/COT.PDF)

<sup>28</sup> National Integrated Tax Management Service (*Servicio Nacional Integrado de Administración Tributaria*- SENIAT): [www.seniat.gov.ve](http://www.seniat.gov.ve)

<sup>29</sup> Interviews in Venezuela, 27-30 October 2003.

<sup>30</sup> Interviews in Venezuela, 8-12 November 2004.

<sup>31</sup> Public Service Statute (*Ley Sobre el Estatuto de la Función Publica*, in Spanish only):

[www.venezuela.gov.ve/ns/Leyfuncionpublica.asp](http://www.venezuela.gov.ve/ns/Leyfuncionpublica.asp)

<sup>32</sup> Budget Proposal for FY 2005 (*Proyecto de Ley de Presupuesto 2005*, in Spanish only):

[http://www.ocepre.gov.ve/informacion/Ley\\_2005/Ley2005.html](http://www.ocepre.gov.ve/informacion/Ley_2005/Ley2005.html)

<sup>33</sup> Interviews in Venezuela, 27-30 October 2003.

<sup>34</sup> For example, see Budget Execution (*Asignacion y Ejecución Financiera del Presupuesto 2002*, in Spanish only):

[www.ocepre.gov.ve/documentos-publicaciones/Clasificacion%20E\\_S\\_PO\\_PCG/2002/Boletin3009.pdf](http://www.ocepre.gov.ve/documentos-publicaciones/Clasificacion%20E_S_PO_PCG/2002/Boletin3009.pdf)

<sup>35</sup> *Memoria 2002 del Ministerio de Finanzas* (in Spanish only):

[www.mf.gov.ve/acrobat/MEMORIA%202002%20-completa-.pdf](http://www.mf.gov.ve/acrobat/MEMORIA%202002%20-completa-.pdf)

<sup>36</sup> OEFP Central Government statistics: [www.mf.gov.ve/mfen/estadisticas\\_con\\_est1.htm](http://www.mf.gov.ve/mfen/estadisticas_con_est1.htm)

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- <sup>37</sup> Interviews in Venezuela, 27-30 October 2003.
- <sup>38</sup> OEFP Restricted Public Sector statistics: [www.mf.gov.ve/mfen/estadisticas\\_con\\_est1.htm](http://www.mf.gov.ve/mfen/estadisticas_con_est1.htm)
- <sup>39</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>40</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>41</sup> Interviews in Venezuela, 27-30 October 2003.
- <sup>42</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>43</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>44</sup> [www.mf.gov.ve/mfen/calendario.htm](http://www.mf.gov.ve/mfen/calendario.htm)
- <sup>45</sup> *Plan Operativo Anual Nacional* (POAN, in Spanish only): [www.mpd.gov.ve/poan2003/poan2003.htm](http://www.mpd.gov.ve/poan2003/poan2003.htm)
- <sup>46</sup> *Plan de Desarrollo Economico y Social de la Nacion 2001-2007* (in Spanish only): [www.mpd.gov.ve/pdeysn/plan.htm](http://www.mpd.gov.ve/pdeysn/plan.htm)
- <sup>47</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>48</sup> Interviews in Venezuela, 8-12 November 2004 and 25-28 October 2005. This is of particular concern given that about 30% of all government revenues come from the oil sector.
- <sup>49</sup> Interviews in Venezuela, 18-20 November 2002 (the methodology used in annual or multi-annual budgeting was not available for consultation) and interviews in Venezuela, 8-12 November 2004.
- <sup>50</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>51</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>52</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>53</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>54</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>55</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>56</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>57</sup> Oxford Analytica Daily Brief, Venezuela: 'Institutional Weakness Hits Social Policy', 6 September 2005.
- <sup>58</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>59</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>60</sup> For example unemployment over the past year went down 5 points, but employment went up only 1 point, owing to a change in the definition of unemployment used by the INE. Interviews in Venezuela, 25-28 October 2005.
- <sup>61</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>62</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>63</sup> *Ley de Presupuesto y Modificaciones 2003* (as amended on August 22, 2003, in Spanish only): [www.ocepre.gov.ve/documentos-publicaciones/Acordado/2003/acordado.pdf](http://www.ocepre.gov.ve/documentos-publicaciones/Acordado/2003/acordado.pdf)
- <sup>64</sup> Accounting and audit practices (in Spanish only): [www.cgr.gov.ve/no\\_publicaciones.html](http://www.cgr.gov.ve/no_publicaciones.html)
- <sup>65</sup> *Ley de Reforma Parcial a la Ley de Licitaciones* (in Spanish only): [www.venezuela.gov.ve/ns/Leylicitaciones.asp](http://www.venezuela.gov.ve/ns/Leylicitaciones.asp)
- <sup>66</sup> Interviews in Venezuela, 27-30 October 2003.
- <sup>67</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>68</sup> For example, the compilation of information on mayors' offices is being arranged under the *alcaldia digital* programme: [www.alcaldiadigital.enti.ve](http://www.alcaldiadigital.enti.ve)
- <sup>69</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>70</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>71</sup> Interviews in Venezuela, 18-20 November 2002.
- <sup>72</sup> Interviews in Venezuela, 25-28 October 2005.
- <sup>73</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>74</sup> Interviews in Venezuela, 8-12 November 2004 and 25-28 October 2005.
- <sup>75</sup> INE: [www.ine.gov.ve](http://www.ine.gov.ve)
- <sup>76</sup> Interviews in Venezuela, 27-30 October 2003.
- <sup>77</sup> Unemployment over the past year went down five points, but employment went up only one point; with the change in the definition of unemployment, partial employment, for example, rendered a person 'employed'. Interviews in Venezuela, 25-28 October 2005.
- <sup>78</sup> Interviews in Venezuela, 8-12 November 2004.
- <sup>79</sup> Interviews in Venezuela, 25-28 October 2005.

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